LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 21, 2009

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB4433** by Rodriguez (Relating to an exemption from the severance tax for certain gas and oil produced.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4433, As Engrossed: a negative impact of ($1,404,000) through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	($474,000)
2011	($930,000)
2012	($993,000)
2013	($1,009,000)
2014	($1,015,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Foundation School Fund* 193	Probable Revenue (Loss) from *Economic Stabilization Fund* 599
2010	($474,000)	($1,422,000)
2011	($930,000)	($2,790,000)
2012	($993,000)	($2,979,000)
2013	($1,009,000)	($3,027,000)
2014	($1,015,000)	($3,046,000)

Fiscal Analysis

The bill would amend Section 202.056 of the Tax Code, relating to the two-year inactive well exemption from oil and natural gas severance taxes.

The bill would extend the two-year inactive well exemption program for an additional ten years by moving the application and certification deadlines to August 31, 2019 and February 28, 2020, respectively. The bill would subject the tax incentive to a three month average price condition described by Section 171.1011(s) of the Tax Code as certified by the Comptroller. Applications for incentive certification would have to be received by the Railroad Commission (RRC) by the 90th day after the date the Comptroller certifies the price condition has been met. For purposes of this certification, the Comptroller could not consider the price of crude oil on or before October 1, 2009.

The bill would add new Sections 201.060 and 202.062 to the Tax Code, to exempt oil and natural gas incidentally produced in the production of geothermal energy from taxation.

The bill would take effect on September 1, 2009.

Methodology

The price of oil must be at or below $40 per barrel for West Texas Intermediate (WTI) crude oil, or the price of natural gas must be at or below $5 per million British thermal units (MMBtu), for three consecutive months in order to activate the 90 day application period for RRC certification. WTI crude oil prices are forecasted to remain above $40 per barrel through the forecast period. The price of natural gas, however, is expected to be below the $5 threshold for three consecutive months, as measured immediately after the bill's effective date. Shortly thereafter, there is not expected to be any blocks of three consecutive months below the $5 threshold through the end of the forecast period.

The estimated revenue loss was based on information extracted from the Comptroller's oil and natural gas tax data and the *2010-11 Biennial Revenue Estimate.* The fiscal impact reflects the growing loss of tax revenues to the state as qualified inactive oil and natural gas wells continue to populate for the next ten years beginning March 2010.

According to Southern Methodist University's Geothermal Laboratory, although Texas has five major potential geothermal energy production regions associated with oil and natural gas wells, there are no commercial projects in Texas, and the timeline of any potential operations is unknown at this time. Therefore, the fiscal impact from the Section of the bill relating to the severance tax exemption for gas and oil incidentally produced in association with geothermal energy production cannot be determined.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

LBB Staff: JOB, MN, SD, KK